

PRESS RELEASE

January 24, 2024

Bank credit to expand by robust ~15% in FY2024, ~12% in FY2025: ICRA

- **Incremental bank credit growth as well as corporate bond issuances to reach all-time high in FY2024**

ICRA has revised upwards its projection of bank credit growth in FY2024 to 14.9-15.3% (incremental Rs. 20.4-20.9 trillion) from its earlier estimate of 12.8-13.0% in FY2024 (incremental Rs. 17.5-17.8 trillion). This will be the highest ever incremental bank credit growth and would surpass the previous high of Rs.18.2 trillion (YoY growth of 15.4%) in FY2023. Further, ICRA estimates corporate bond issuances to reach Rs. 9.6-9.9 trillion in FY2024, crossing the record level of Rs. 8.7 trillion seen during FY2023. However, the rating agency cautioned that challenges in deposit mobilisation could temper bank credit expansion to 11.7-12.6% in FY2025.

Incremental bank credit growth¹ touched nearly Rs.16.9 trillion in 9M FY2024 (till December 29, 2023), far outpacing the Rs. 14.1 trillion expansion for the corresponding period last year. This incremental growth has been driven by the retail segment and non-bank finance companies (NBFCs), with YoY growth of 33% and 23% respectively as on November 18, 2023. While incremental bank credit growth remained reasonably strong at Rs. 6.1 trillion in Q3 FY2024 (Rs. 10.8 trillion in H1 FY2024), it stood lower at Rs. 1.3 trillion in December 2023 vis a vis Rs.2.0 trillion during December 2022.

Commenting further, **Mr. Anil Gupta, Senior Vice President, ICRA** said: *“The relative deceleration in bank credit expansion seen during December 2023, reflects the regulatory measures on increased risk-weights on loans extended to consumer credit and non-banking finance companies (NBFCs), apart from the tight liquidity conditions in the banking sector. Looking ahead, weaker export demand in certain sectors, softer commodity prices, and challenges in deposit mobilisation could temper bank credit growth in FY2025. We expect the incremental credit growth to drop to Rs.19.0-20.5 trillion in FY2025 (YoY growth of 11.7%-12.6%), while remaining sizeable.”*

This bank credit growth is also going to be accompanied by a record incremental deposit mobilisation in FY2024, with the highest ever build-up at Rs. 21.7-22.3 trillion (Rs. 19.2 trillion for 9M FY2024 and Rs. 15.8 trillion in FY2023). This was driven by a record accretion of Rs. 11.2 trillion in Q1 FY2024, partially supported by withdrawal of the Rs. 2000 currency note. The incremental ask for banks to keep ramping up deposits to bridge the gap with credit growth would remain a challenge, despite the anticipated relative moderation in credit growth in FY2025. Amid tight liquidity conditions, banks could increase dependence on non-deposit resources, including debt capital market instruments and refinance from All-India Financial Institutions (AIFIs) in the interim. Accordingly, in the absence of one-offs, deposit mobilisation is expected to moderate to Rs. 19.4-20.0 trillion in FY2025 (YoY growth at +9.5-9.8% in FY2025 vis +12.0-12.3% estimated for FY2024). At these estimated levels, incremental credit-deposit ratio would continue to remain high at 95-100% in FY2024-FY2025 for the banking system, thereby keeping liquidity conditions tight through FY2025 as well.

With high credit flow to the NBFCs from the banking sector, the growth in assets under management (AUM) for the NBFCs is also expected to remain robust at 14-16% for FY2024 compared to our earlier estimates of 13-15%. With higher base and expectation of a tighter liquidity, the growth in NBFC AUM is expected to moderate to 13-15% in FY2025.

Commenting further, **Mr. A M Karthik, Senior Vice President, ICRA** said: *“Within the NBFCs, the retail AUM of NBFCs (excluding HFCs) is expected to witness a growth of 21-23% for FY2024 and moderate to 17-19% for FY2025.”*

¹ excluding the impact of a merger of a HDFC limited with HDFC bank

The NBFC-HFCs and NBFC-infra sectors are expected to witness an AUM growth of 12-14% and 10-12% in FY2024 as well as FY2025 each respectively.”

Furthermore, cumulative bond issuances registered a strong YoY growth of 17% during 9M FY2024 with issuances of Rs. 7.1 trillion (Rs. 6.1 trillion in 9M FY2023). Going forward, corporate bond issuances would find support from a combination of factors, including elevated cost of bank funding vis-à-vis bond pricing, particularly for the NBFCs, the largest issuers, following an increase in risk weights, higher demand for refinance from the AIFIs amid tight liquidity as well as the cooling-off of the yield on 10-year benchmark G-sec.

We expect the conditions for corporate bond issuances to remain conducive for both the issuers and the investors in the remainder of FY2024 and FY2025, which is likely to drive the bond issuance register with back-to-back years of record issuances at Rs. 9.6-9.9 trillion in FY2024 and Rs. 10.0-10.5 trillion in FY2025 against Rs. 8.7 trillion in FY2023. Given the increased supply corporate bond spreads, which continue to lag pre-pandemic levels, may also see a rise, which would attract investors. At these estimated levels, the overall corporate bond outstanding (estimated at Rs. 44.7 trillion as on December 31, 2023) would register a 5-7% YoY growth to Rs. 45.2-45.5 trillion by March 2024 and Rs. 47.7-48.5 trillion by March 2025.

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